



Midpeninsula Regional
Open Space District

R-17-69
Meeting 17
May 24, 2017

AGENDA ITEM 5

AGENDA ITEM

Consideration of the Controller's Report on the Proposed Fiscal Year 2017-18 Budget.

GENERAL MANAGER'S RECOMMENDATIONS *SM*

Approve the Controller's report on the Fiscal Year 2017-18 Budget.

SUMMARY

The District will begin the new fiscal year with cash balances totaling an estimated \$60.7 million in the general fund, \$11.3 million in the MAA fund, and \$1.5 million in the Hawthorn endowment fund. Projected general fund revenues and cash are adequate to cover budgeted general fund debt service, reserve requirements, operating expenses, and capital expenditures. It is anticipated that the District will complete spending of the \$40 million of non-taxable MAA bond proceeds from the July 2015 bond issuance by the middle of the fiscal year. Based on projections of MAA capital expenditures and land purchases over the next three fiscal years, the budget includes the issuance of \$50 million additional MAA bonds by January 2018. District long-term financial projections indicate that the proposed budget is sustainable and consistent with District plans and objectives.

DISCUSSION

The attached FY 2017-18 summary of the proposed budget and my estimate of projected results breaks the income and spending into three funds: [1] the general fund, [2] the MAA capital fund, and [3] the Hawthorn endowment fund. The first column lists a summary of the proposed budget. The second column shows my expectations, based on experience, of likely budget variances, including real property purchases for both the general fund (\$3.15 million) and MAA fund (\$1.14 million). The beginning cash balances assume large capital expenditures in the last three months of the current fiscal year, \$1.2 million in the general fund and \$6.4 million in the MAA fund. It is possible that some of this projected spending will shift into 2017-18. The starting general fund balance also assumes that the Board approves an upcoming staff recommendation to pay down, in June, another \$1 million of the District's unfunded CalPERS pension liability.

General Fund Income

1. General Fund Tax Revenue to be received between July 1, 2017 and June 30, 2018 is budgeted at \$45.03 million (67% from Santa Clara County and 33% from San Mateo County), an annual increase of 6.5%. This reflects a projected 7.6% increase in secured taxes

and a 1.9% decrease in unsecured, supplemental and redevelopment-related taxes. Through April, District general fund secured tax revenue is increasing at a 8.5% annual rate in the current tax year.

2. Santa Clara County Parks Income is budgeted at \$364,501, up 10% from the current year budget.
3. Property Management Income is budgeted at \$1,133,572, down 6% from the current year budget.
4. General Fund Interest Income is budgeted at \$621,000, assuming that interest rates remain low.
5. Other Income is estimated at \$300,000 for general fund grants, reimbursements, fines, fees, and cash donations.

General Fund Debt Service

Debt service requirements for non-MAA debt for FY2017-18 are \$9.13 million, up 0.4% from the current year. The scheduled debt service payments will be detailed in the Debt Service Annual Claims List, to be presented with the final budget presentation.

Other General Fund Expenditures

1. Non-MAA Capital Expenditures: The budget includes \$6.53 million for capital expenditure (capex) projects which do not qualify for MAA funding. This excludes the planned \$3.15 million purchase of land and facilities to house the South Area Field Office. The projected column includes this purchase. The attachment breaks this general fund capex into two lines, one for new facility investment, a projected total of \$4.4 million (out of the total five year estimate of \$60 million) and other capex. As shown in the middle column, I have assumed that 6% of the other budgeted capex is delayed into the following year.
2. Operating Expenses are budgeted at \$30.3 million, or 67% of projected general fund tax revenue. If the District spends 96% of this operating budget, which would be a higher percentage than usual, operating spending would be at 65% of tax revenue, which is consistent with the current long-term financial model. At 96% of budget, operating spending would be up 15% over the forecast for the current year.

Committed and General Fund Reserves

If all general fund revenues and expenditures occur as projected, the District general fund cash balance would total \$59.3 million at the end of FY2017-18. This would fully cover the \$35.4 million of reserve commitments and the minimum general fund balance of 30% of budgeted general fund tax revenue, or \$13.5 million. No changes to committed reserves are recommended at this time.

MAA Revenue and Capital Spending

The budget indicates that the board will again levy an MAA tax of eighty cents in the coming fiscal year, which should yield about \$2.0 million of tax revenue. This would cover scheduled MAA net debt service payments of \$2.0 million, net of remaining bond premium. The budget also includes \$581,060 of grant income related to MAA projects and \$472,000 of interest

income. The MAA capital spending budget is \$12.6 million. My projection adds \$1.1 million for potential MAA land purchases.

MAA Bond Issuance

As noted above, staff expects to complete spending of the remaining MAA non-taxable bond proceeds by the middle of the fiscal year. Therefore, the issuance of the second tranche of MAA bonds is planned for the December-January timeframe. Combining the three year MAA capex projection with the list of potential MAA-qualified land purchase transactions during that period, and subtracting out the remaining proceeds from the first tranche, provides justification for issuing up to \$55 million of new MAA bonds in 2017-18. Because long-term interest rates remain historically low, Stefan and I recommend that the District size the second tranche as large as practical, thus minimizing the cost of the MAA bond program and the required long-term tax rate. The current estimate is \$50 million.

Hawthorn Endowment

The budget includes \$166,500 of spending from the Hawthorn endowment. If spent, this will reduce the endowment cash balance to approximately \$1.3 million.

Long-Term Financial Model

Attached is the latest version of my thirty year financial model. The model clearly indicates that the FY2017-18 budget, adjusted for likely variances, is sustainable and consistent with District long-term financial plans.

The model includes only one change from last year: the addition of a line, NEW FACILITIES, projecting the timing of the planned \$60 million of general fund investment in new office and field facilities. As shown, the current estimate for AO construction is in 2020-21.

This projection assumes 4% average general fund tax and assessed valuation (AV) growth over the next thirty years, compared to 6.1% over the last ten years and 6.2% compounded growth over the last thirty years. Given this AV growth and other stated assumptions, the District would have MAA bond funding, within the \$3.18 target maximum tax rate, to complete the MAA project in 2043-44.

FISCAL IMPACT

There are no unbudgeted fiscal impacts associated with this Agenda Item.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act. No additional notice is required.

CEQA COMPLIANCE

Board review of the Controller's Report is not a project under the California Environmental Quality Act and no environmental review is required.

NEXT STEPS

Following this Agenda Item, the Board will be asked to evaluate the FY2016-17 Budget in view of the information contained in the Controller's report.

Attachments:

1. FY 2017-18 Cash Projection
2. MROSD 30 Year Cash Flow Projection

Prepared by:

Michael L. Foster, Controller

Contact person: (same as above)

FY2017-18 Cash Projection (\$Millions)

	<u>BUDGET</u>	<u>adjust</u>	<u>Projected</u>
EST. BEGINNING GENERAL CASH	60.66		60.66
GENERAL FUND TAX REVENUE	45.03		45.03
SANTA CLARA COUNTY PARKS	0.36		0.36
PROPERTY MANAGEMENT	1.13		1.13
INTEREST INCOME	0.62		0.62
OTHER INCOME	<u>0.30</u>		<u>0.30</u>
TOTAL GENERAL FUND REVENUE	<u>47.45</u>		<u>47.45</u>
OPERATING EXPENSES	30.33	-4%	29.12
NEW FACILITIES	1.24	3.15	4.39
NON-MAA CAPITAL SPENDING	6.62	-6%	6.22
NON-MAA DEBT SERVICE	<u>9.13</u>		<u>9.13</u>
TOTAL GENERAL FUND SPENDING	<u>47.33</u>		<u>48.87</u>
OPERATING CASH FLOW	<u>0.12</u>		<u>(1.42)</u>
ENDING GENERAL FUND CASH	60.78		59.25
COMMITTED RESERVES	<u>35.40</u>		<u>35.40</u>
AVAILABLE GENERAL FUND CASH	25.38		23.85
EST. BEGINNING MMA FUND CASH	11.35		11.35
MAA BOND PROCEEDS	50.00		50.00
MAA DEBT SERVICE	1.96		1.96
MAA TAX REVENUE	1.96		1.96
INTEREST INCOME	0.47		0.47
GRANT INCOME	0.58		0.58
MAA CAPITAL SPENDING	12.63		12.63
MAA LAND PURCHASES	0.00	1.14	1.14
REIMBURSE THE GENERAL FUND	<u>(12.05)</u>	<u>(1.14)</u>	<u>(13.18)</u>
ENDING MAA FUND CASH BALANCE	49.78		48.64
BEGINNING HAWTHORN CASH	1.47		1.47
HAWTHORNE SPENDING	<u>0.17</u>		<u>0.17</u>
ENDING HAWTHORN FUND CASH	1.31		1.31
ENDING TOTAL CASH BALANCES	111.87		109.20

MROSD 30 YEAR CASH FLOW PROJECTION (FY18-47)**\$60M of new facilities**

(\$Millions)

TAX GROWTH: **4** %NON-MAA CAPEX BASE: **\$4.0 M**23-32 RESERVE INCR: **\$3.0 M/year**

5/8/17

OPEX GROWTH: **5.4** %NON-MAA CAPEX GR: **4.0** %OTHER REVENUE GR: **2** % \$1.2M/ yr lease revenueOPEX GR > TAX GR: **1.6** %17-19 OPEX GROWTH: **23%**GRANTS/MAA CAPEX: **5** %

FISCAL YEAR:	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	FY18-32
BEGINNING GEN CASH	55.75	60.66	59.25	62.85	61.10	30.56	25.51	31.04	36.13	42.58	48.74	54.92	61.06	67.28	73.22	78.13	
TAX REVENUE	42.26	45.03	46.83	48.61	50.46	52.38	54.38	56.45	58.59	60.82	63.14	65.54	68.03	70.62	73.31	76.10	890.3
OTHER (incl \$1.2M rent)	<u>2.00</u>	<u>2.42</u>	<u>2.47</u>	<u>2.52</u>	<u>2.57</u>	<u>2.62</u>	<u>2.67</u>	<u>3.92</u>	<u>4.00</u>	<u>4.08</u>	<u>4.16</u>	<u>4.25</u>	<u>4.33</u>	<u>4.42</u>	<u>3.90</u>	<u>3.36</u>	51.7
OPERATING REVENUES	44.26	47.45	49.30	51.13	53.03	55.00	57.05	60.37	62.60	64.91	67.30	69.79	72.37	75.04	77.20	79.46	942.0
OPERATING EXPENSES	25.39	29.12	31.16	32.84	34.62	36.17	38.13	40.19	42.36	44.65	47.06	49.61	52.29	55.11	58.09	61.23	652.6
<i>Operating Exp/Taxes</i>	60%	65%	67%	68%	69%	69%	70%	71%	72%	73%	75%	76%	77%	78%	79%	80%	
NON-MAA CAPEX	3.88	6.22	4.34	3.88	4.16	4.33	4.50	4.68	4.87	5.06	5.26	5.47	5.69	5.92	6.16	6.40	76.9
NEW FACILITIES		4.39	1.25	7.65	36.00	10.71											60.0
CALPERS PRE-FUND	1.00																0.0
MAA SPEND/REFUND																	0.0
NON-MAA DEBT SERVICE	9.09	9.13	8.95	8.51	8.79	8.85	8.89	10.42	8.91	9.03	8.80	8.57	8.16	8.07	8.04	8.04	131.2
NON-MAA SPENDING	<u>39.36</u>	<u>48.86</u>	<u>45.70</u>	<u>52.88</u>	<u>83.57</u>	<u>60.05</u>	<u>51.52</u>	<u>55.28</u>	<u>56.14</u>	<u>58.74</u>	<u>61.13</u>	<u>63.65</u>	<u>66.14</u>	<u>69.10</u>	<u>72.29</u>	<u>75.67</u>	920.7
OPERATING CASH FLOW	4.91	-1.41	3.60	-1.75	-30.54	-5.05	5.53	5.09	6.46	6.16	6.17	6.14	6.22	5.94	4.92	3.78	21.3
ENDING GENERAL CASH	60.66	59.25	62.85	61.10	30.56	25.51	31.04	36.13	42.58	48.74	54.92	61.06	67.28	73.22	78.13	81.92	
COMMITTED RESERVES	<u>35.40</u>	<u>35.40</u>	<u>35.40</u>	<u>35.40</u>	<u>13.40</u>	<u>8.40</u>	<u>11.40</u>	<u>14.40</u>	<u>17.40</u>	<u>20.40</u>	<u>23.40</u>	<u>26.40</u>	<u>29.40</u>	<u>32.40</u>	<u>35.40</u>	<u>38.40</u>	
AVAILABLE GEN CASH	25.26	23.85	27.45	25.70	17.16	17.11	19.64	21.73	25.18	28.34	31.52	34.66	37.88	40.82	42.73	43.52	
BOND PROCEEDS (NET)		50.00			30.00			28.00			27.00			24.00			159.0
GO BOND DEBT SERVICE	1.46	1.96	5.34	5.34	6.27	7.21	7.21	8.09	8.97	8.97	9.83	10.67	10.67	12.23	12.23	12.23	127.2
GO BOND TAX REVENUE	1.84	1.96	5.34	5.34	6.27	7.21	7.21	8.09	8.97	8.97	9.83	10.67	10.67	12.23	12.23	12.23	127.2
INTEREST INCOME	0.24	0.47	0.75	0.40	0.50	0.30	0.20	0.40	0.30	0.15	0.35	0.25	0.15	0.30	0.20	0.20	4.9
MAA CAPEX	14.44	13.76	20.00	19.24	15.00	11.00	11.00	11.00	10.50	10.50	10.50	10.50	10.50	9.00	9.00	9.00	180.5
LESS: GRANT INCOME	<u>0.84</u>	<u>0.58</u>	<u>1.00</u>	<u>0.96</u>	<u>0.75</u>	<u>0.55</u>	<u>0.55</u>	<u>0.55</u>	<u>0.53</u>	<u>0.53</u>	<u>0.53</u>	<u>0.53</u>	<u>0.53</u>	<u>0.45</u>	<u>0.45</u>	<u>0.45</u>	8.9
NET MAA CAPEX	13.60	13.18	19.00	18.27	14.25	10.45	10.45	10.45	9.98	9.98	9.98	9.98	9.98	8.55	8.55	8.55	171.6
BOND REIMBURSEMENT	<u>13.60</u>	<u>13.18</u>	<u>19.00</u>	<u>18.27</u>	<u>14.25</u>	<u>10.45</u>	<u>10.45</u>	<u>10.45</u>	<u>9.98</u>	<u>9.98</u>	<u>9.98</u>	<u>9.98</u>	<u>9.98</u>	<u>8.55</u>	<u>8.55</u>	<u>8.55</u>	171.6
MAA FUND CASH	11.35	48.64	30.39	12.52	28.77	18.62	8.37	26.32	16.64	6.82	24.19	14.47	4.64	20.39	12.04	3.69	
ENDOWMENT CASH	1.47	1.31	1.17	1.04	0.94	0.84	0.74	0.64	0.54	0.44	0.36	0.31	0.26	0.21	0.16	0.11	1.37
ENDING TOTAL CASH	73.48	109.20	94.41	74.65	60.26	44.96	40.14	63.08	59.76	56.00	79.47	75.83	72.18	93.81	90.33	85.71	
CUMM MAA CAPEX	40.0	53.8	73.8	93.0	108.0	119.0	130.0	141.0	151.5	162.0	172.5	183.0	193.5	202.5	211.5	220.5	
CUMM TOTAL CAPEX		18.3	38.3	62.6	85.8	104.9	120.2	135.7	151.4	166.8	182.4	198.1	214.1	230.3	245.2	260.4	

30YRCF0508budget

11:59 AM5/19/2017

MROSD 30 YEAR CASH FLOW PROJECTION (FY17-46)

5/8/17
 (\$Millions) TAX GROWTH: **4.0** % NON-MAA CAPEX BASE: **\$4.0 M** 32-44 RESERVE INCR: **\$2.00 M/year**
 OPEX GROWTH: **5.2** % NON-MAA CAPEX GR: **4.0** % OCCUPY ENTIRE AO: 2031
 OPEX GR > TAX GR: **1.2** % OTHER REVENUE GR: **2** % GRANTS/MAA CAPEX: **5** %

FISCAL YEAR:	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41	41-42	42-43	43-44	44-45	45-46	46-47	FY33-47
BEGINNING GEN CASH	78.13	81.92	85.68	89.27	92.99	95.23	97.40	99.42	101.55	103.93	105.47	105.56	110.09	112.93	114.45	114.53	
TAX REVENUE	76.10	79.14	82.31	85.60	89.02	92.58	96.29	100.14	104.15	108.31	112.64	117.15	121.84	126.71	131.78	137.05	1584.7
OTHER REVENUE	<u>3.36</u>	<u>3.43</u>	<u>3.50</u>	<u>3.57</u>	<u>3.64</u>	<u>3.71</u>	<u>3.79</u>	<u>3.86</u>	<u>3.94</u>	<u>4.02</u>	<u>4.10</u>	<u>4.18</u>	<u>4.26</u>	<u>4.35</u>	<u>4.44</u>	<u>4.52</u>	<u>59.3</u>
OPERATING REVENUES	79.46	82.57	85.80	89.17	92.66	96.30	100.07	104.00	108.08	112.33	116.74	121.33	126.10	131.06	136.21	141.57	1644.0
OPERATING EXPENSES	61.23	64.42	67.77	71.29	75.00	78.90	83.00	87.31	91.86	96.63	101.66	106.94	112.50	118.35	124.51	130.98	1411.1
<i>Operating Exp/Taxes+RR</i>	80%	81%	82%	83%	84%	85%	86%	87%	88%	89%	90%	91%	92%	93%	94%	96%	
NON-MAA CAPEX	6.40	6.66	6.93	7.20	7.49	7.79	8.10	8.43	8.76	9.12	9.48	9.86	10.75	11.18	11.63	12.10	135.5
NON-MAA DEBT SERVICE	8.04	7.73	7.52	6.96	7.94	7.44	6.95	6.13	5.08	5.05	5.51						66.3
NON-MAA SPENDING	<u>75.67</u>	<u>78.80</u>	<u>82.22</u>	<u>85.45</u>	<u>90.42</u>	<u>94.13</u>	<u>98.05</u>	<u>101.88</u>	<u>105.70</u>	<u>110.79</u>	<u>116.65</u>	<u>116.80</u>	<u>123.26</u>	<u>129.54</u>	<u>136.14</u>	<u>143.08</u>	<u>1612.9</u>
OPERATING CASH FLOW	3.78	3.77	3.59	3.72	2.24	2.17	2.02	2.13	2.39	1.54	0.10	4.53	2.84	1.52	0.07	-1.51	31.1
ENDING GENERAL CASH	81.92	85.68	89.27	92.99	95.23	97.40	99.42	101.55	103.93	105.47	105.56	110.09	112.93	114.45	114.53	113.02	
COMMITTED RESERVES	<u>38.40</u>	<u>40.40</u>	<u>42.40</u>	<u>44.40</u>	<u>46.40</u>	<u>48.40</u>	<u>50.40</u>	<u>52.40</u>	<u>54.40</u>	<u>56.40</u>	<u>58.40</u>	<u>60.40</u>	<u>62.40</u>	<u>62.40</u>	<u>62.40</u>	<u>62.40</u>	
AVAILABLE GEN CASH	43.52	45.28	46.87	48.59	48.83	49.00	49.02	49.15	49.53	49.07	47.16	49.69	50.53	52.05	52.13	50.62	
BOND PROCEEDS (NET)	0	23.00			26.00			29.00			18.00						96.0
GO BOND DEBT SERVICE	12.23	13.75	13.75	13.75	15.46	15.46	15.46	17.38	17.38	17.38	18.57	18.57	18.57	18.57	18.57	16.02	248.6
GO BOND TAX REVENUE	12.23	13.75	13.75	13.75	15.46	15.46	15.46	17.38	17.38	17.38	18.57	18.57	18.57	18.57	18.57	16.02	248.6
INTEREST INCOME	0.20	0.35	0.25	0.15	0.35	0.25	0.15	0.35	0.25	0.15	0.25	0.10	0.05				2.7
MAA CAPEX	9.00	8.50	8.25	8.25	9.50	9.25	9.25	10.50	10.50	10.00	10.00	9.00	4.73				107.7
LESS: GRANT INCOME	<u>0.45</u>	<u>0.43</u>	<u>0.41</u>	<u>0.41</u>	<u>0.48</u>	<u>0.46</u>	<u>0.46</u>	<u>0.53</u>	<u>0.53</u>	<u>0.50</u>	<u>0.50</u>	<u>0.45</u>	<u>0.24</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5.4</u>
NET MAA CAPEX	8.55	8.08	7.84	7.84	9.03	8.79	8.79	9.98	9.98	9.50	9.50	8.55	4.49	0.00	0.00	0.00	102.3
BOND REIMBURSEMENT	<u>8.55</u>	<u>8.08</u>	<u>7.84</u>	<u>7.84</u>	<u>9.03</u>	<u>8.79</u>	<u>8.79</u>	<u>9.98</u>	<u>9.98</u>	<u>9.50</u>	<u>9.50</u>	<u>8.55</u>	<u>4.49</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	102.3
MAA FUND CASH	3.69	18.97	11.38	3.69	21.02	12.48	3.84	23.22	13.49	4.14	12.89	4.44	0.00	0.00	0.00	0.00	
ENDOWMENT	<u>0.11</u>	<u>0.09</u>	<u>0.07</u>	<u>0.05</u>	<u>0.03</u>	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	0.11
ENDING TOTAL CASH	85.71	104.73	100.72	96.73	116.27	109.88	103.26	124.76	117.42	109.61	118.45	114.53	112.93	114.45	114.52	113.02	
CUMM MAA CAPEX	220.5	229.0	237.3	245.5	255.0	264.3	273.5	284.0	294.5	304.5	314.5	323.5	328.3	328.3	328.3	328.3	
CUMM TOTAL CAPEX	260.4	275.5	290.7	306.2	323.1	340.2	357.5	376.5	395.7	414.8	434.3	453.2	468.7	464.4	480.3	476.5	

MROSD PROJECTED MEASURE AA TAX RATE

\$60M of new facilities

5/8/17

FISCAL YEAR: **16-17 17-18 18-19 19-20 20-21 21-22 22-23 23-24 24-25 25-26 26-27 27-28 28-29 29-30 30-31 31-32**

AV GROWTH: **4** %

ASSESSED VALUE (\$B)	232.7	249.0	258.5	268.3	278.5	289.1	300.1	311.5	323.4	335.7	348.5	361.7	375.5	389.8	404.6	420.0
MAA DEBT SERVICE (\$M)	1.46	1.96	5.34	5.34	6.27	7.21	7.21	8.09	8.97	8.97	9.83	10.67	10.67	12.23	12.23	12.23
TAX RATE	\$0.63	\$0.79	\$2.06	\$1.99	\$2.25	\$2.49	\$2.40	\$2.60	\$2.77	\$2.67	\$2.82	\$2.95	\$2.84	\$3.14	\$3.02	\$2.91

FISCAL YEAR: **31-32 32-33 33-34 34-35 35-36 36-37 37-38 38-39 39-40 40-41 41-42 42-43 43-44 44-45 45-46 46-47**

AV GROWTH: **4.0** %

ASSESSED VALUE (\$B)	420.0	436.8	454.3	472.4	491.3	511.0	531.4	552.7	574.8	597.8	621.7	646.6	672.4	699.3	727.3	756.4
MAA DEBT SERVICE (\$M)	12.23	13.75	13.75	13.75	15.46	15.46	15.46	17.38	17.38	17.38	18.57	18.57	18.57	18.57	18.57	16.02
TAX RATE	\$2.91	\$3.15	\$3.03	\$2.91	\$3.15	\$3.03	\$2.91	\$3.14	\$3.02	\$2.91	\$2.99	\$2.87	\$2.76	\$2.65	\$2.55	\$2.12